



## **Title Pawn Hearing**

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### **Banks and Banking Subcommittee**

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**October 25, 2005, 9:00-11:00 am, 506 Coverdell LOB**

**Present:** Representative/Subcommittee Chairman Calvin Hill, Representative/Committee Chairman James Mills, Representative/Committee Secretary David Knight, Representative Mary Margaret Oliver, Representative Johnny Floyd, Representative Howard Maxwell, Representative Jack Murphy, Representative Bobby Reese, Representative Charles Scheid III, Representative Donna Sheldon

**Staff:** Richard Ruskell, Legislative Council, Jennifer Nirenberg, Policy Analyst

*Chairman/Representative Calvin Hill called the hearing to order at approximately 9:00 am, and Representative James Mills lead the invocation. Chairman/Representative Calvin Hill then asked Representative Mary Margaret Oliver to summarize HB 675, and Representative James Mills to summarize HB 864.*

*Representative Mary Margaret Oliver focused on two points while summarizing HB 675:*

- **Interest Rate:** HB 675 currently allows up to 75% interest for the first three months, and then allows a 12.5% interest rate. Ideally, Representative Mary Margaret Oliver would prefer legislation that mandates a 20% interest rate cap for the first three months, and then 0% interest after that.
- **Changing economy:** Consumer credit transactions (such as title pawns), along with the overall economy in Georgia, is hurting the working class. Thirty percent of Georgians are currently "unbanked."

*Representative James Mills offered commentary and gave a brief summary of HB 864:*

- HB 864 would not allow title pawnholders to keep the excess money from the sale of a repossessed title pawn vehicle. Since this legislation has been introduced, some title pawnholders have already begun refunding the money as a good business practice. Very often the vehicles are worth far less than the title pawn itself.
- There is an inherent problem in taking a three month title pawn and calculating the APR as if it were a 12 month loan.
- Representative Mills relayed that he has personally visited five title pawn places anonymously and was quoted an interest rate of 12% for the first three months.

*Chairman/Representative Calvin Hill reminded the audience that a title pawn is not a loan. Title pawns are proceeds, and the word loan is not the appropriate legal terminology.*

*The legislators then heard testimony from the following speakers:*

**Speakers:**

**1. John Robinson, Chief Operating Officer, TitleMax**

- TitleMax is a privately-owned title pawn operator based in Savannah. TitleMax has 115 offices in 80 Georgia cities, employees 315 Georgians, and has 40,000 customers in Georgia. Therefore, title pawns are an economic asset to Georgia and are meeting a market demand.
- For TitleMax, less than 5% of automobiles from title pawns are repossessed; Repossessions are not profitable.
- If a car is totaled while under a title pawn, there is no recourse for the pawnholder, such as garnishing wages or suing. (This is part of the risk assumed). Title pawns are not loans.
- Military policy: While deployed, service members and their spouses receive a 0% interest rate.

**2. Catherine Stewart, District Manager, TitleMax**

Customer service is a high priority and reps handle complaints in a 24 hour period. Sometimes the loan is written off completely when there is a complaint/issue.

**3. Gregg Cox, TitleMax Customer**

Gregg had medical problems and was ill with cancer when he started going to TitleMax. Scott from TitleMax wrote him a letter while he was applying for a mortgage at 6% interest rate. TitleMax has also forgiven some of his debt.

**4. Robert Johnson, TitleMax Customer**

Robert had car problems and one was later totaled. He borrowed \$300 and paid back \$100/per month.

**5. Angela Caldwell, TitleMax Customer**

Angela could not receive a loan from anyone when her husband fell ill with Degenerative Joint Disease (DJD). Behind on her rent, she received \$500 with no interest. She was able to pay back the \$500 in 30 days.

**5. Angela Rooks, Manager, Title Exchange**

Angela made the point that Title Exchange often loses money on repossessions. It costs \$150-\$200 to pick up a car; They only charge \$50 to the consumer.

**6. Darlene Milmer, Title Exchange Customer**

Darlene lost her job after 14 years and collected unemployment for 2 years. She used title pawns in the interim, and also before she was fully vested in her new job. She fell ill with cancer and title pawns were her only recourse. Darlene recommends title pawns because the interest is only on the balance for each month.

## **7. Mark Moore, Forsyth Quick Cash**

Mark relayed that his employees are very concerned, and stand in opposition to both bills being proposed.

- Overriding “Econ 101” by manipulating the market will cause the supply to vanish and demand to be unaffected. This demand will ultimately be filled, possibly with unsavory characters.
- Regarding HB 864, this is a great idea in theory. However, if there is a surplus the business is entitled to the extra money just like it must pay its losses. The business has the right to go after the deficiencies.
- Regarding HB 675, the intent of the bill is to put title pawns out of business. If there was not such a high risk involved in the title pawn industry, banks and other finance companies would offer them as well.
- Title pawns provide a unique niche in the economy for people who usually have a bad credit history and also need cash quickly.
- Money is a commodity and the market should set the price for it, just like anything else. The cost of the funds, the risk involved, and the expected returns all allow for the cost of money.
- Title pawn interest rates should not be compared to other types of loans and APRs. If you bounce a check, the bank will charge you \$25 and the store will charge you \$25. If you are late on a credit card, you pay a \$35 late fee. ( $365 \times \$35 =$  a pretty good yield).

Mark asked that these bills be either defeated or amended as follows:

**HB 675:** To be amended to provide a guarantee fund be established by the State of Georgia for the purpose of guaranteeing up to 90% of all pawns made in the State of Georgia. The intent of this amendment is to provide security to those entities that choose to provide funds to unqualified borrowers at below risk-adjusted rates.

**HB 864:** To be amended to provide for the recovery of deficiencies after default and disposal of collateral. The purpose of this is to allow the pawnbroker to pursue any and all remedies in law and equity to satisfy any and all deficiencies caused by the breach of a pawn contract and subsequent sale of collateral.

## **8. Mike Moore, Manager, Atlanta Title Loans**

Atlanta Title Loans has 225 locations in 19 states, with 80-90,000 customers. The average title pawn is under \$400, and on average 25% of all loans extend over 90 days. Interest rates appear high when stated as an APR. ALEC passed a model pledge bill which could be overlayed over any states’ law.

## **9. Mark Ozment, Atlanta Title Loans Customer**

Mark has a house and a savings account, but he still likes to use title pawns when he needs money inexpensively. For example, before he vacations to Florida he will visit Atlanta Title Loans.

**10. Robyn Mayes, Atlanta Title Loans Customer**

**Robyn worked for 30 years before using title pawns in order to supplement her pension.**

**11. Bill Valencia, Happy Fast Money**

**Bill has been in business since 1993, with stores in Georgia and Tennessee. Bill operates with the philosophy that “Silence in the pawn industry is not golden.” If a customer calls him and tells him they are going to be late making a payment, he often waives the fee. Sometimes interest is canceled altogether for repeat customers. Bill gives his customers three options:**

- 1) Pay off in full**
- 2) Just pay the interest**
- 3) Pay the finance charge**

**Bill makes all these decisions as part of a good business practice, without any legislation. He could not cover his operating expenses with a 5% interest rate.**

**12. Danny Orrock, Georgia Watch**

**Danny was representing 3-4 people who could not be present, and were victimized by title pawnholders. One of the people is Tia Hinton, whose car was repossessed after paying \$2,800 in interest on a \$3,500 loan to TitleMax of Jonesboro. There was no record of the repossession with the local police departments and TitleMax would not give her any information over the phone.**

**Danny offered the following recommendations to the subcommittee:**

- 1) Tackle the debt problem: The 25% interest rate should drop to 3% after 90 days. There should be a mandatory payment of the principal every month. Additionally, there should be no prepayment penalties for customers that want to pay off the balance early.**
- 2) Pass HB 864 which returns funds over and above what is owed back to the borrower.**
- 3) Create licensing standards for title pawn brokers so that consumers have somewhere to turn if they are victimized.**

*Representative/Chairman Calvin Hill charged the subcommittee with making confidential visits to title pawn managers/owners. This kind of insight is very valuable in order to gain a true understanding for how the industry operates. There are very real challenges and fixed costs of doing business unique to this industry, such as filing a lien on vehicles.*

*Representative/Chairman Calvin Hill also relayed to the hearing members that they will take a look at the model ALEC legislation.*

*Representative/Chairman Calvin Hill adjourned the hearing at approximately 11:30 am.*